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## MONTHLY ISAE BUSINESS SURVEY ON MANUFACTURING AND EXTRACTIVE FIRMS

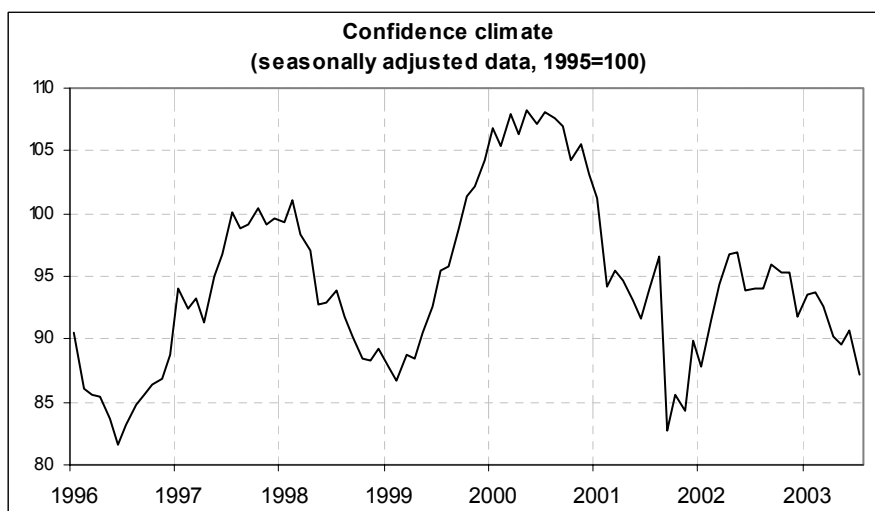
Reference period: July 2003

- The current cyclical situation continues to be characterised by a high degree of uncertainty, which is mirrored in volatile – and sometimes non homogeneous – confidence behaviour . Unlike what happens for consumers, in July the manufacturing and extractive firms' indicator (seasonally adjusted data) decreases again after the June recovery, passing from 90.7 to 87.1
- The deterioration is due to the considerable worsening of short-term production expectations; assessments on the present order-book level are also negative (both on domestic and on foreign markets) and finished products inventories remain on what are considered “Normal” levels
- Among the non confidence-building variables, expectations on order books, on employment and on selling prices considerably deteriorate. Those on the country's general economic trend remain stable on the low levels reached in June
- The confidence reduction is homogenously diffused in all the main sectors: the seasonally adjusted index passes from 97.2 to 92.2 in consumer goods, from 85.3 to 80 in investment goods and from 89.9 to 85 in intermediate goods. Compared to twelve months ago, the contraction equals 12.1 percentage points in intermediate goods and 8.1 in investment goods, while the confidence index of consumer goods producers is about 2 points above the level of one year ago
- Finally, breaking down data by size, the confidence deterioration is particularly marked in small firms (with a number of employees between 10 and 99) and in large ones (above 500 employees). In medium-sized firms (namely with a number of employees between 100 and 499) the indicator slightly falls compared to June and reaches levels close to those registered in the early-2003

### QUARTERLY QUESTIONS

Reference period: II quarter 2003

- In the II quarter 2003, the indications emerging from the questions ISAE poses to firms on a quarterly basis are favourable with regard to new orders and to production constraints. This goes alongside with a modest rise in the degree of industrial plant utilisation equalling 76.6% (75.7% in the previous Survey)
- However, the majority of respondents consider the present production capacity level “More than sufficient”, and negative indications come also from assessments on working hours and from expectations on the short-term evolution of exports



Data referring to August shall be diffused on **September 9, 2003**.

Next ISAE surveys are scheduled as follows:

**July 29, 2003:** ISAE Monthly Business Service Survey (Reference period: July) and ISAE Monthly Survey on Traditional Retail Trade and Large Distribution (Reference month: June)

**July 31, 2003:** Comparative Business Surveys for Italy, Germany and France (Reference month: July)

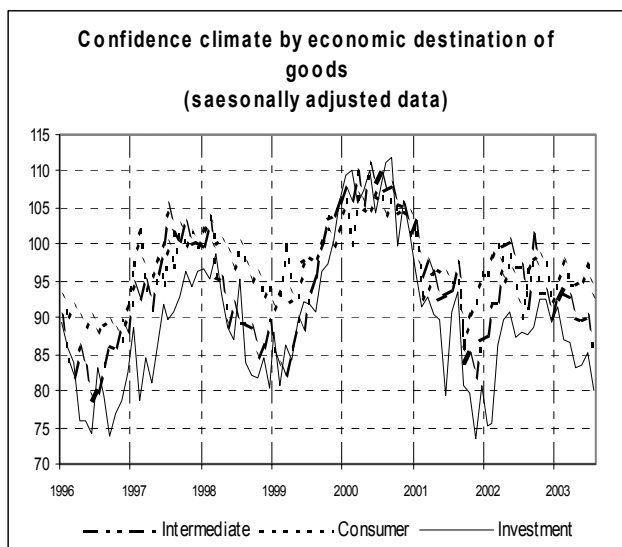
The full text of ISAE Surveys (either hardcopy or electronic) is available on sale (for further information see web site [www.isae.it](http://www.isae.it))

## General Results

According to the ISAE Monthly Survey carried out between July 1 and 18 on a panel of about 4,000 firms, the manufacturing and extractive firms' confidence indicator (seasonally adjusted data) drastically decreases in July from 90.7 to 87.1, which is 6.5 points less than in January 2003.

The July deterioration is due in particular to an evident worsening of production expectations; assessments on the present order-book level are negative (both on domestic and on foreign markets) and finished products inventories remain on what are considered "Normal" levels. Among the non confidence-building variables, expectations on order books, on employment and on selling prices considerably deteriorate. Those on the country's general economic trend remain stable on the low levels reached in June.

The confidence deterioration is homogenously diffused in all the main sectors: the seasonally adjusted index passes from 97.2 to 92.2 in consumer goods, from 85.3 to 80 in investment goods and from 89.9 to 85 in intermediate goods. Looking at the overall trend of the first 7 months of the year, the confidence contraction has been particularly strong in investment goods (-11.3 points between January and July) and in intermediate goods (-7.5 points), while it has been smaller in consumer goods (-3.1 points).



## Situation in the reference period (July 2003)

In July, ISAE respondents' order books remain substantially stable on the low figures registered in the previous months. Indeed, another slight contraction is observed in assessments on the production trend, while inventories stabilise on what are considered "Normal" levels.

With reference to order books, the seasonally adjusted balance slightly decreases to -24 (after remaining at -23 for three months in a row) in the face of a modest worsening on domestic markets (the balance passing from -22 in June to -23 in July) and of a marked contraction on foreign markets (from -25 to -28), probably because of the relative strengthening of the euro against the dollar. Indeed, firms also signal a further slight contraction in production levels: the seasonally adjusted balance falls from -16 in June to -18 in July, which is one of the minimum figures ever reached since November 2001.

Turning to single sectors, the situation seems to be worsening everywhere: assessments on the present order books (seasonally adjusted balance) fall in investment goods (from -24 to -26), in consumer goods (from -20 to -21) and in intermediate goods (from -24 to -27). The contraction observed in investment goods is mainly due to the negative trend registered in foreign order books.

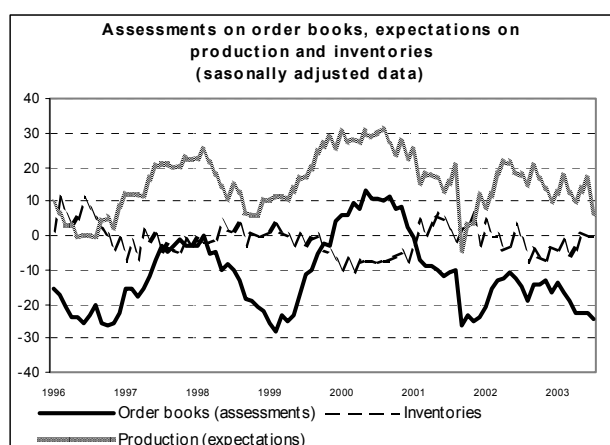
With reference to production, all sectors express more negative assessments than those expressed last month: the balance falls from -22 to -24 in investment goods, from -9 to -11 in consumer goods and from -20 to -21 in intermediate goods.

On the contrary, with regard to inventories, different sectors show opposing trends, namely investment and intermediate goods producers signal a further reduction (the balance falling from 3 and 1 in June to 0 and -2 respectively), while a new rise is observed in consumer goods inventories (from -7 to 0).

## Forecasts for the next quarter

In July, entrepreneurs' expectations for production and order books in the next quarter strongly worsen, within a framework characterised by a gradual easing of inflationary tensions and by still pessimistic expectations on the economic prospects.

The balance of expectations on production falls from 16 in June to 6 in July; expectations on order books in the next quarter fall from 18 to 10. In both cases, those are the smallest figures since the late-2001. Negative indications also come from expectation on employment, where the number of those expecting an employment reduction rise from 14 to 18%. Thus, the balance (raw data only, given the short historical series available) falls from -5 in June to -9 in July, thus reaching one of the smallest value since the II quarter 1996 (when the Survey was still carried out on a quarterly basis). Expectations for an industrial price rise fall again in July: their balance decreases from 4 to 1, thus reaching again the figures which had preceded the international tensions on raw materials triggered by the Iraqi war. Finally, expectations on the country's general economic trend remain negative at -12 as in June (seasonally adjusted balance).



The worsening of expectations affects all the major sectors, even though it is more marked in investment compared to consumer and intermediate goods. Indeed, for investment goods the balance of expectations on production diminishes from 22 to 2 and those on order books from 23 to 12, while expectations on employment go from 4 to -6. In consumer goods, expectations on production pass from 20 to 12, while those on order books from 17 to 15 and those on employment stabilise at -9. Finally, in intermediate goods, expectations on production fall down to 2 (from 15) and those on employment at -10 (from -4).

Also with regard to prices, the balance contraction is common to all sectors. Finally, expectations also on the general country's situation are negative in all sectors, even though a slight recovery is registered in investment goods (the balance going from -5 to -2), while a worsening is emerging in consumer (the seasonally adjusted balance falling from -14 to -17) and in intermediate goods (from -8 to -13).

## Manufacturing firms' confidence climate and balances of indicator-building series

	Confidence climate	Order-book level	Finished goods inventories	Expectations on production
Apr. 2003	90.2	-23	-4	10
May 2003	89.6	-23	1	13
June 2003	90.7	-23	0	16
July 2003	87.1	-24	0	6

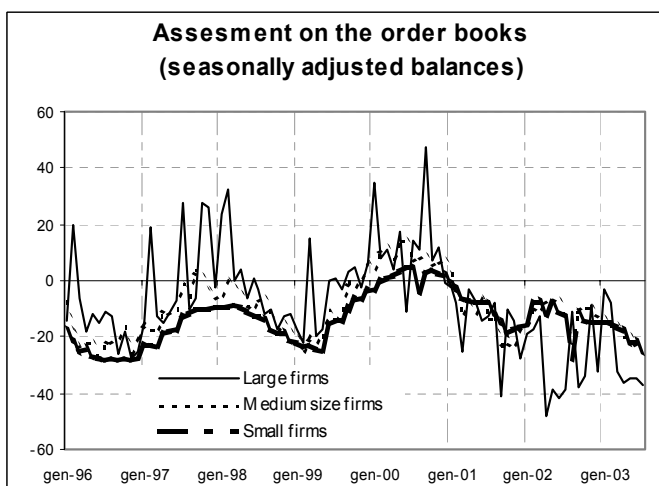
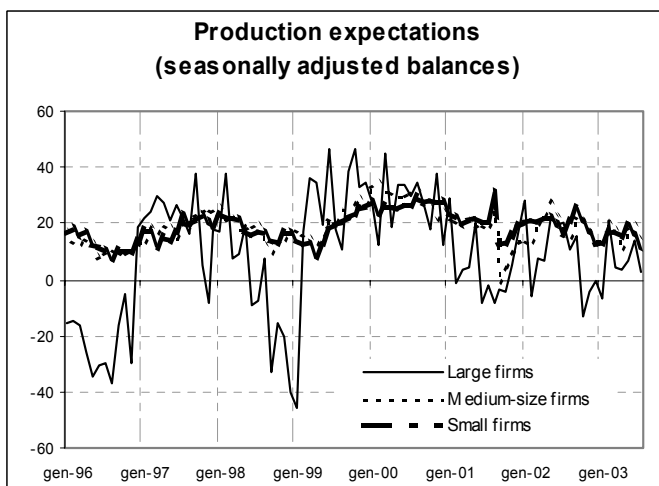
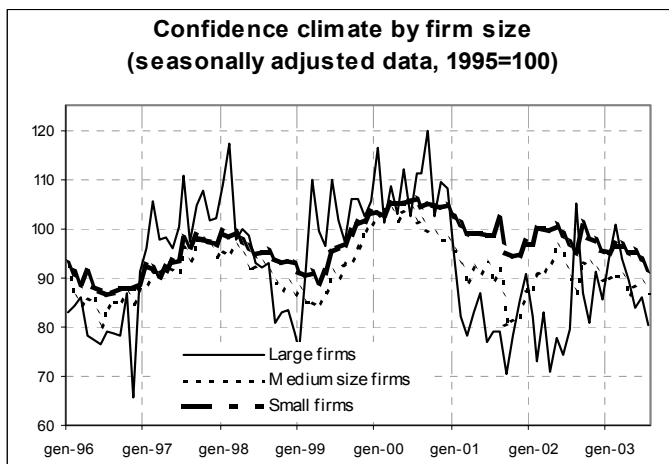
### The confidence trend by firm size

The results of the ISAE Monthly Survey on Manufacturing and Extractive Firms may be broken down by firm size. The confidence climate trend of firms with a number of employees ranging between 10 and 99 (small firms), 100 and 499 (medium-sized firms) and above 500 (large firms) is examined in what follows.

The confidence contraction appears particularly marked for large firms, both looking at the July data and generally at the trend of the whole year. Indeed, the seasonally adjusted index for the large firms falls from 86 in June to 80.3 in July, which is one of the lowest level since October 2002. The confidence index for large firms - which had shown signals of recovery between the late-2002 and the early-2003 - has been following a decreasing trend since February 2003. Thus, the July value is close to the figures of one year ago, but it is more than 13 points below the early-2003 levels.

With regard to medium-sized firms, the confidence deterioration is smaller: the indicator falls from the June figure of 89.1 to 87.1 in July, and even the contraction compared to the beginning of the year is smaller and equal to 1 percentage point.

The confidence index for small firms goes from 94 to 91.3, which is the smallest figure since May 1999. The index thus shows a 4-percentage-point reduction compared to January 2002.



## The main quarterly results (II quarter 2003)

In the II quarter 2003, the indications emerging from the questions ISAE poses to firms on a quarterly basis are favourable with regard to new orders (the balance growing from -9 to 0) and to assessments on production constraints (which are relevant according to 34% of respondents as against 36% in the I quarter). In particular, firms continue to be limited by “lack of demand” (as 63% of the sample stated). Conversely, the share of those considering “lack of manpower” as a fundamental constraint is decreasing (from 8 to 7%), while the number of those complaining “insufficient plants” is growing. Indeed, starting from the present quarter, a further opportunity was included in questionnaires, namely, the possibility to indicate “financial constraints”, which are considered relevant by 8% of respondents. In the present quarter, firms signal a slight rise in their degree of plant utilisation, which equals 76.7% from 75.7% of the previous Survey.

The majority of respondents (31% of the sample, as against 32% in the previous quarter) still consider the present production capacity level “More than sufficient”, while the number of those deeming the present plant capacity is still “Insufficient” falls from 5 to 4%. Negative indications come from assessments on working hours, which a growing number of respondents consider as diminishing (their seasonally adjusted balance decreases from -11 to -13). Also expectations on the short-term export evolution are negative: their balance passes from 13 to 2, which is close to the low figures of the III quarter 2001. Finally, on the basis of the present order-book level, the ensured production length remains at 3.8 months and inventories of both finished and semi-finished goods remain unchanged at -1.

